

# Contract Management Audit June 2019



## Audit Report Internal Audit

### **Distribution**

Audit and Finance Subcommittee  
Scott Smith, Chief Executive Officer  
Jim Hillyard, Chief Administrative Officer  
Paul Hodgins, Chief Financial Officer  
Michael Minnaugh, General Counsel

**To Scott Smith, Chief Executive Officer:**

The purpose of this report is to communicate the results of the Contract Management Audit. The audit was part of Valley Metro's Fiscal Year 2018/19 Internal Audit Plan.

The report includes the following sections: Objective, Scope, Methodology, Prior Audit Recommendations, Background and Audit Recommendations.

Valley Metro's Contract Management processes for contract award, monitoring and closeout processes continue to evolve. Multiple policies, management changes and lack of clear directions existed during the contract lifecycle under review. Management has implemented a joint procurement manual and trainings in efforts to standardize these processes and improve efficiencies.

Based on Internal Audit's review, this report contains six recommendations to improve the department's effectiveness and efficiencies while strengthening recordkeeping, contract reconciliations and closeout process controls.

During the course of this audit, individuals throughout Valley Metro and from partnering organizations assisted by providing information and supplied documentation for Internal Audit's testing of varying processes regarding Valley Metro's contract award, monitoring and closing processes. Internal Audit appreciates their assistance.

For questions or further clarification, please contact me at 602-322-4453.



Mary Modelski  
Internal Audit Director  
June 05, 2019

Performed by:  
Jennifer Davis  
Senior Internal Auditor

## Objective

Determine if Valley Metro awarded, monitored and closed contracts in accordance with Valley Metro policies and applicable Federal regulations. Additionally, determine if the Contracts and Procurement Department maintained adequate records to evidence those efforts, if policies accurately reflected Federal requirements and any other matters that raised to a level of attention.

## Scope

The timeframe under review was from January 1, 2017 through June 30, 2018. Items that were incurred prior to or carried over from this timeframe and either fell into the scope timeframe or assisted in completion of the audit objectives were included within the population.

## Methodology

The audit sample selected included Valley Metro Rail, Inc. (VMR), Regional Public Transportation Authority (RPTA) and joint entity contracts. Additionally, Internal Audit considered if the contracts used Federal Transit Administration (FTA) funds and if awarded by sealed bid or competitive proposals, non-competitive/sole source or joint procurements via cooperative agreements. Internal Audit focused on the practices and recordkeeping as related to awarding, monitoring and closeout of those contracts.

To achieve our audit objectives, Internal Audit performed the following audit procedures:

- Obtained from Contracts and Procurement a list of contracts with start dates from 01/01/17-06/30/18 and the *Weekly Procurement Report* (v. 07/05/18) to capture all active contracts during the scope. Internal Audit determined an active contract population of 158 contracts for the audit period.
- Obtained from Finance the *Posted General Ledger Transactions* reports for Fiscal Years 16/17 and 17/18 to capture all payments posted. Internal Audit reviewed the contract listings and general ledger reports and selected a judgmental sample of 17 contracts for review (representing just over 10% of the current contract population of 158).
- Reviewed the following policies and manuals to determine if they contained the procurement procedure requirements as indicated in the *FTA Circulars 4220.1F*, Revision 3 (02/2011) and Revision 4 (03/2013), Chapters III, Section 3 (a):
  - *VMR Procurement Policy and Procedure Manual* (v. 04/25/11)
  - *RPTA Purchasing / Procurement policy* (v. 06/16/11)
  - *Joint Internal Procurement Manual* (v. 06/25/18)

- Reviewed documents for 17 contracts to determine compliance with the contract awarding, monitoring and closeout recordkeeping requirements as provided in the *FTA Circular 4220.1F*, Revision 4 (03/2013) Chapter III, Section 3 (d); *VMR Procurement Policy and Procedure Manual*, Section 14 and *RPTA Purchasing / Procurement policy*, Section V (A) to include:
  - Awarding documents included:
    - Contract requisitions
    - Solicitation:
      - Federal clauses
      - Scope of work
      - Evaluation process
      - Public Notice
    - Selection:
      - Proposal review and evaluation
      - Procurement Summary
      - Evaluation and selection documents
    - Board Approval:
      - Board Memo, indicated funding sources
      - Board Meeting Minutes
    - Contract signatures
    - Insurance coverage
    - City of Phoenix notifications, as applicable
  - Monitoring documents included:
    - Contract Pay Applications:
      - Approval signatures
      - Supporting invoices
      - Correct distribution codes
    - Task Orders
    - Change Orders:
      - Board Approval, as applicable
      - City of Phoenix notification, as applicable
    - On-going Insurance Coverage
  - Closeout documents included:
    - Closeout letter
    - Verification of deliverables
    - Contract payments reconciliation
    - Notification to City of Phoenix, as applicable
- Verified *Posted General Ledger Transactions* reports for Fiscal Years 16/17 and 17/18 and the Contract Pay Applications for the 17 contracts matched.

## Prior Audit Recommendations

In compliance with the *International Professional Practices Framework's* Standard 2500, Internal Audit has established and maintains a system to monitor the disposition of results and communicates them to management. Although, responsibility for determining final status of the external recommendations and deficiencies remains with the City of Phoenix and the Federal Transit Administration, by reviewing relevant items, Internal Audit is able to provide an update on the recommendations and deficiencies.

**City of Phoenix's Procurement Audit** dated August 17, 2017. On May 9, 2019, the Chief Financial Officer communicated to Valley Metro employees the release of the approved *Joint Internal Procurement Manual* (v. 05/08/19) and offered training for updated material on May 17, 2019. Internal Audit considers the recommendations as remediated.

**Federal Transit Administration's Fiscal Year 2018 Triennial Review of the City of Phoenix** dated November 9, 2018. The final report cited deficiencies on four of Valley Metro contracts for missing or inadequate documentation for 13 contract components.

Contracts and Procurement had located and provided to the City of Phoenix documentation for 11 of the 13 cited contract components. The remaining two contract components cited a missing FTA clause for Veteran Employment, for which Valley Metro has added verbiage to solicitations going forward. In response to the Triennial Review, the City of Phoenix implemented a procurement-monitoring program as presented to the Regional Transit Advisory Group (RTAG) on January 15, 2019. It required Contracts and Procurement to use a checklist and to submit solicitations to the City of Phoenix for review and approval prior to issuance.

Internal Audit considers the deficiencies as remediated based on items reviewed as noted above.

## Background

Valley Metro's Fiscal Year 18/19 Internal Audit Plan included the Contract Management Audit. The Audit and Finance Subcommittee approved the Internal Audit Plan on June 14, 2018. This review was to determine if Valley Metro awarded, monitored and closed contracts in accordance with Valley Metro policies and applicable Federal regulations. The following Valley Metro policies and Federal Transit Administration (FTA) regulations were the basis for our review to determine compliance:

- *VMR Procurement Policy and Procedure Manual* (v. 04/25/11)
- *RPTA Purchasing / Procurement policy* (v. 06/16/11)
- *FTA Circular 4220.1F, Revision 3* (v. 02/2011)
- *FTA Circular 4220.1F, Revision 4* (v. 03/2013)
- *Joint Internal Procurement Manual* (v. 06/25/18)
- *Joint Internal Procurement Manual* (v. 05/08/19)

## Contracts and Procurement – Policies, Management Oversight and Key Hires

Prior to 2012, RPTA and VMR operated as separate and independent entities and as such, each issued their own procurement policies in 2011. In 2012, the RPTA and VMR Boards integrated the staff to ensure a coordinated approach to public transportation but the entities continued to operate as distinct and separate entities. Although separate entities, Contracts and Procurement began reporting to General Counsel with the 2012 integration and increased release of joint entity contracts. At that time, no updated written policy to govern the combined Contracts and Procurement functions nor to establish requirements for joint entity contracts existed. In December 2016, Valley Metro began the recruitment process for a Chief Procurement Officer (CPO), which led to the October 2017 hiring of the current CPO. In 2017, Contracts and Procurement began drafting the *Joint Internal Procurement Manual* and finalized it in June 2018. Contracts and Procurement began reporting to the Chief Financial Officer (CFO) in June 2018. The timeline below highlights the changes in policies, management oversight and some key hires:



## Procurement policies and manuals - FTA requirements

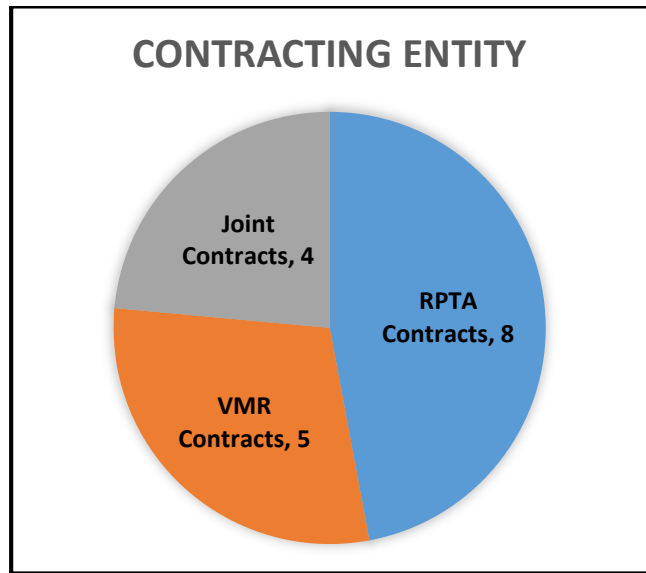
The 2011 policies (RPTA and VMR) lacked verbiage to address the five FTA specific areas; Internal Audit noted no deficiencies in the 17 contracts reviewed for the 15 specific FTA requirements. Additionally, Internal Audit noted that Management ensured the *Joint Internal Procurement Manual* (v. 06/25/18) addressed all 15 specific FTA requirements.

## Contracts Reviewed

Internal Audit reviewed documentation to distinguish recordkeeping and procurement requirements for the 17 contracts. Requirements varied based on (1) the contracting entity and (2) the contract value, (3) funding sources and (4) method of procurement. Additional documentation and requirements were applicable for *Change Orders* and *Task Orders*.

The chart below displays the contracting entities.

Contract documentation had the contracting entities listed as RPTA on eight contracts, VMR on five contracts and both RPTA and VMR listed on four joint entity contracts.



**Board of Directors Authorization to Solicit**

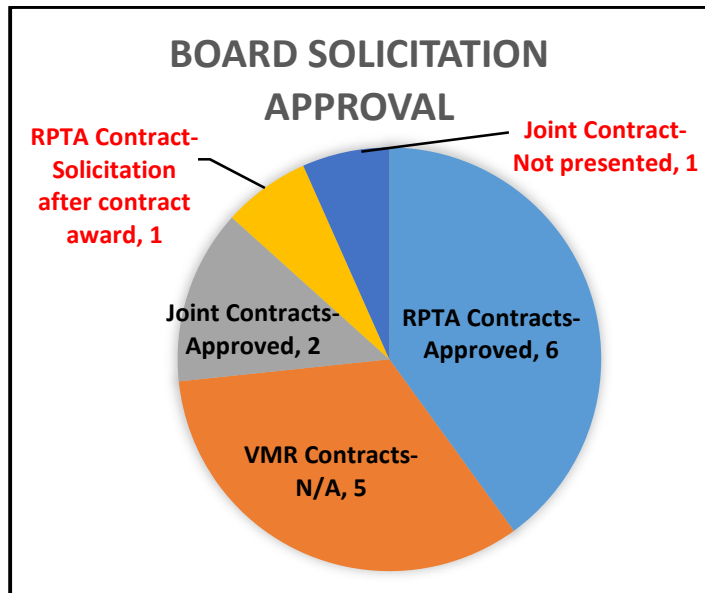
Internal Audit noted the RPTA policy specified that RPTA contracts that exceeded \$50,000 required the RPTA Board of Directors approval to authorize the issuance of a solicitation. VMR policy did not require such authorization. Since, the entities did not merge their staff and operations until 2012, the 2011 procurement policies (RPTA and VMR) did not advise if the Board of Directors needed to authorize the solicitation for joint entity contracts. The chart below displays a breakdown of solicitation approvals for the 15 of the 17 contracts that exceeded \$50,000.

Internal Audit noted documented Board of Directors approval to solicit for six RPTA and two joint entity contracts.

Contracts and Procurement issued the solicitation for a RPTA sole source procurement after the Board approved the **contract award**. See page 18 for more details.

Contracts and Procurement did not present the solicitation for a joint entity contract for facilities maintenance services to the Board prior to issuance.

Five VMR contracts did not require Board approval to solicit, as the policy does not require.



N/A: Not applicable, VMR solicitations did not require Board Approval

**Procurement Method**

Contracts and Procurement used the following procurement methods to procure the 17 contracts: Sole Source Justification, Invitation for Bids or Request for Proposals. The procurement manual defined these methods as:

- Sole Source Justification (SSJ) was a procurement action that resulted in a contract after Contracts and Procurement solicited and negotiated with only one source (vendor). Valley Metro documented the justification and the appropriateness of the decision to solicit an offer from only one source.
- Invitation for Bids (IFB) was a procurement action that resulted in a contract after Contracts and Procurement solicited competitive sealed bids. Valley Metro documented the contract award based solely on the lowest price from a responsive and responsible bidder.
- Request for Proposals (RFP) was a procurement action where in the solicitation for equipment, goods or a service was on a competitive basis. Used where no clear definition of the desired goods or services, or where different approaches to the work were possible, or where personal knowledge, experience and skills were a determining factor; professional services were always procured by RFP. Valley Metro documented the contract award based on evaluations of both technical merit and price.

The table below displays an assigned number to the contract, contracting entity, contract description and procurement method used for the 17 contracts reviewed:

Number assigned to contract for reference	Contract Description	SSJ	IFB	RFP
1 V	Conceptual Engineering and Environmental Studies (Cap I-10)			*
2 R	In-Person Assessment Services (ADA)			*
3 R	RPTA/City of Tempe Fixed Route Bus Operations			*
4 V	Gilbert Road Light Rail Extension			*
5 J	Facility Maintenance Services			*
6 R	Van Pool Vans		*	
7 J	Procurement System Software			*
8 R	Manufacture & Delivery of 40' Buses			*
9 R	Manufacture & Delivery of 60' Buses			*
10 V	Backup Generator - Purchase and Install		*	
11 R	Online Application Software	*		
12 J	Fare Inspection and Security Services			*
13 V	Rail Rollingstock Audit Services			*
14 R	Manufacture & Delivery of 30' Buses			*
15 V	Construction Services-Job Order Contract			*
16 J	Federal Government Consulting Services			*
17 R	REMIX Software	*		

Contracting Entity: R-Regional Public Transportation Authority V-Valley Metro Rail J- Joint Contract



## Contract Funding

Valley Metro funded the 17 contracts through a variety of funding sources:

- Federal Transit Administration (FTA) grants
- Federal Highway Administration (FHWA) Surface Transportation Program (STP)
- Regional Area Road Fund (RARF)
- Public Transportation Funds from Proposition 400 for bus (PTF-B)
- Public Transportation Funds from Proposition 400 for rail (PTF-R)
- Rails operations (Rail Ops): member cities contributions, fare revenue and advertising
- Member cities contributions

Internal Audit met with the Budget Manager to determine the specific funding sources of the 17 contracts based on the 2017-2018 project codes posted to the general ledger. The table below displays an assigned number to the contract, contracting entity, contract description and funding source used for the 17 contracts reviewed:

Number assigned to contract for reference	Contract Description	FTA Grants	FHWA STP	RARF	PTF-B	PTF-R	Rail Ops	Member Cities
1 V	Conceptual Engineering and Environmental Studies (Cap I-10)	*				*		
2 R	In-Person Assessment Services (ADA)				*			
3 R	RPTA/City of Tempe Fixed Route Bus Operations	*			*			*
4 V	Gilbert Road Light Rail Extension	*						Mesa
5 J	Facility Maintenance Services				*		*	
6 R	Van Pool Vans		*					
7 J	Procurement System Software			*	*			
8 R	Manufacture & Delivery of 40' Buses	*			*			
9 R	Manufacture & Delivery of 60' Buses	*			*			
10 V	Backup Generator - Purchase and Install						*	
11 R	Online Application Software			*	*			
12 J	Fare Inspection and Security Services				*		*	
13 V	Rail Rollingstock Audit Services	*				*		Mesa
14 R	Manufacture & Delivery of 30' Buses	*			*			
15 V	Construction Services-Job Order Contract	*			*	*	*	
16 J	Federal Government Consulting Services			*				*
17 R	REMIX Software			*	*			

Contracting Entity: R-Regional Public Transportation Authority V-Valley Metro Rail J- Joint Contract

### Board of Directors Authorization to Contract

The 2011 procurement policies (RPTA and VMR) required authorization from the Board of Directors to execute contracts that exceed \$50,000 for RPTA and those that exceeded \$150,000 for VMR and granted the Chief Executive Officer (CEO) authorization to execute contracts under those thresholds. Since, the entities did not merge their staff and operations until 2012, the 2011 procurement policies (RPTA and VMR) were silent on how the authorization to contract thresholds applied to joint entity contracts. Internal Audit noted contracts that exceeded \$50,000 had documented Board approvals. The chart below displays a breakdown of contract approvals for the 17 contracts.

Internal Audit noted documented Board of Directors authorizations to execute contracts for the seven RPTA contracts that exceeded \$50,000, the five VMR contracts that exceeded \$150,000 and three joint entity contracts that exceeded \$50,000.

Also noted was CEO approval for one RPTA contract valued less than \$50,000 and one joint entity contract valued less than \$50,000.



### Change Orders and Task Orders

The 2011 procurement policies (RPTA and VMR) permitted for contract modifications (i.e. contract time or contract value) by means of a *Change Order* and indicated when additional Board approval was required:

“Contract *Change Orders* shall be used pursuant to the changes provision in the base contract when it becomes necessary to change the contract cost and/or fee, Statement of Work, Period of Performance, or any other mutually agreeable change to the Contract.”

“*Change Orders* to contracts in an amount that exceeds Board approval budget authority must be submitted to the Board for approval.”

To maintain consistency and control of rolling stock contracts, Contracts and Procurement also enforced the use of a *Change Order* to facilitate rolling stock orders. The contract value did not increase; therefore, Board approval was not required.

The 2011 procurement policies (RPTA and VMR) did not have a defined definition of *Task Order*. However, Valley Metro used *Task Orders* to request “Performance of Work” within the scope of the contract. The 17 contracts reviewed used *Change Orders* and *Task Orders* as the following:

- Five contracts had no *Task* or *Change Orders*
- Two contracts used *Task Orders* to obtain specific services from the vendor
- Four contracts only used *Change Orders* to order rolling stock (buses or vans)
- Five contracts used *Change Orders* to change contract time or contract value
- One contract used both *Change Orders* to change time and value and used *Task Orders* to obtain specific services from the vendor

## Audit Recommendations:

### Contract Closeout Documentation - Not Maintained

Contracts and Procurement did not maintain evidence to support the contract closeout process or completed the applicable closeout documentation for seven contracts. Three contracts had service end dates before July 1, 2018 and four contracts had final products invoiced before July 1, 2018. Four contracts with Federal funds required submission of a contract recap to the City of Phoenix (CoP). The table below is a summary of the seven contracts and indications of closeout processes or documentation.

**Contract Closeout**

Number assigned to contract for reference	Final payment description	Final payment date	"Closed" in SharePoint	Closeout form or checklist completed	Contract recap to CoP <sup>1</sup> required	Evidence contract recap sent to CoP
<b>1</b> V	For June 2017 Work	08/02/17	No	No	Yes	No Documentation <sup>2</sup>
2 R	For June 2018 Work	08/02/18	No	No	No	N/A
7 J	Service agreement 07/01/17 - 06/30/18	10/10/17	No	No	No	N/A
<b>8</b> R	Final Bus (#61) invoiced 04/25/18	07/19/18	No	No	Yes	Yes sent in 04/2019
<b>9</b> R	Final Bus (#10) invoiced 02/08/18	03/06/18	No	No	Yes	No Documentation
10 V	Final 5% of contract - last punch items approved 06/21/18	07/05/18	Yes	No	No	N/A
<b>14</b> R	Final Bus (#8) invoiced 05/05/18	08/30/18	No	No	Yes	No Documentation

Contracting Entity: R-Regional Public Transportation Authority V-Valley Metro Rail J- Joint Contract

Four Federal contracts indicated with **bold, italic and green** reference number

N/A: Not applicable for this contract

<sup>1</sup> Contract recap included closeout letter, all change orders, final payment with support and payment summary

<sup>2</sup> Although no documentation existed, the contract had a "Closed" status as of 12/29/17 in CoP's B2GNow System

The *Regional Public Transportation Authority Procurement* policy (v. 06/16/11) Section V, B. Contract Administration, (7) Contract Closure states:

"The Chief Procurement Officer shall issue a close-out form for completed contracts in the form provided in the Procurement Forms Binder. Such form will be completed when the final product is received and all contractual obligations have been met. At the time of contract closure, the Chief Procurement Officer, and RPTA staff with technical expertise in the area shall have the opportunity to submit comments to the file on the contractor's performance. Such comments will be relevant for future contracting purposes."

Additionally, the *Valley Metro Rail, Inc. Procurement Policy and Procedures Manual* (v. 04/24/11) Section 1.0 Definitions, defined the Contract Administrator as,

“...The Contract Administrator post award responsibilities include: (1) Monitoring the contract for compliance (2) Enforcing contract provisions (3) Reviewing payments to ensure they are in accordance with the terms of the contract (4) Preparing contract modifications as necessary (5) Acting to close out the contract.”

Furthermore, Section 11.8 Contract Closeout, parts A and B states:

“... For Simpler contracts, the Contract Administrator may determine that only a settlement of accounts and final payment for Contract closeout is required, while other larger or complex contracts may require cross functional, multi-disciplinary closeout activities.”

“The Contract Administrator shall be responsible for insuring that contract files are closed in a timely manner and the closeout actions are documented on a closeout checklist, and in such additional details as appropriate.”

The 2011 procurement policies (RPTA and VMR) reflected contract closeout processes that were different between the entities and Valley Metro had not issued a policy to address joint entity contracts. The *Joint Internal Procurement Manual* (v. 06/25/18) provided a clear closeout standard. However, enforcement of the closeout procedures within the 2011 policies and 2018 manual were absent.

Failure to enforce clear processes and procedures for contract closeout may result in a lack of a timely reconciliation of payments and deliverables to ensure fulfillment of contract terms and conditions.

**Recommendations:** Management should establish and communicate clear processes and procedures for contract closeout and periodic self-audit of closed contracts to monitor for compliance with those procedures.

**Views of Responsible Officials:** The Procurement Manual released in 2018 and subsequent update in 2019 include procedures for the proper closeout of contracts. The Chief Procurement Officer (CPO) provides training to contract administrators and follow-up to ensure that contracts are closed properly. The CPO and procurement managers will perform periodic reviews of the contract files to ensure that contract administrators are following proper procedures.

**Responsible Party:** Chief Financial Officer

**Due Date:** August 31, 2019

## Inaccurate General Ledger Coding

Internal Audit determined 99 general ledger postings with coding errors caused 10 of the 17 contracts reviewed to have inaccurate accumulated payments totals in the general ledger as compared to the Contract Pay Applications (P/A's). See the table on next page for a summary of the general ledger postings, column B, column C and Contracts # 1-17 as referenced below.

- Five contracts had 29 postings (not associated with the contracts) coded to their contract number that did not belong. This **overstated** the accumulated payments in the general ledger to the total of \$116,880 (column B). This total was arrived at by distribution codes that were:
  - Incorrectly noted on the P/A's, four postings coded to Contract #3, totaling \$103,162 (B 3)
  - Correctly noted on the P/A's but changed in Finance
    - 10 postings coded to Contract #8, totaling \$4,250 (B 8)
    - Two postings coded to Contract #6, totaling \$7,568 (B 6)
  - Not noted on the P/A's, nine Valley Metro employee travel expense postings coded to Contract #9, totaling \$1,406 (B 9)
  - Not noted on the P/A's, four clerical errors for Wells Fargo postings
    - Three postings coded to Contract #2, totaling \$459 (B 2)
    - One posting to coded Contract #3, totaling \$35 (B 3)
- Three contracts had 68 postings (that should have been associated with the contract) coded to four distributions codes that referenced "no contract- NC" instead. This **understated** the accumulated payments in the general ledger to the total of \$3,688,238 (column C). This total was arrived at by distribution codes that were:
  - Listed on P/A as NC:
    - Contract #6 had 64 postings coded to two NC distribution codes, totaling \$2,525,667 (C 6)
    - Contract #15 had one posting coded to one NC distribution code, totaling \$5,625 (C 15)
  - Listed on P/A referencing the contract number, however, supporting invoices had distribution code listed with NC. Finance coded postings to the NC code. Contract #8 had three postings coded to one NC distribution code, totaling \$1,156,946 (C 8)
- Two contracts had two postings (that should have been associated with the contract) coded to another contract by Finance. This **understated** the accumulated payments in the general ledger to the total of \$499,239 (column C). This total was arrived at by distribution codes that were:
  - Correctly noted on the P/A's but Finance changed the coding:
    - Contract #14 had one posting coding changed, totaling \$474,031 (C 14)
    - Contract #12 had one posting coding changed, totaling \$25,208 (C 12)

## General Ledger Postings (01/01/17-6/30/18)

Number assigned to contract for reference	Postings coded to contract number (A)		Postings coded to contract that did not belong (B)		Postings that should have been coded to contract (C)	
	#	\$ Amount	#	\$ Amount	#	\$ Amount
<b>1</b> V	40	\$ 520,380	0	\$ -	0	\$ -
2 R	41	\$ 944,141	(3)	\$ (459)	0	\$ -
<b>3</b> R	237	\$ 101,379,494	(5)	\$ (103,197)	0	\$ -
<b>4</b> V	533	\$ 65,164,836	0	\$ -	0	\$ -
5 J	61	\$ 1,101,406	0	\$ -	0	\$ -
6 R	90	\$ 3,505,369	(2)	\$ (7,568)	<b>64</b>	\$ 2,525,667
7 J	1	\$ 42,354	0	\$ -	0	\$ -
<b>8</b> <sup>1</sup> R	67	\$ 27,152,393	(10)	\$ (4,250)	<b>3</b>	\$ 1,156,946
<b>9</b> R	41	\$ 9,113,320	(9)	\$ (1,406)	0	\$ -
10 V	2	\$ 565,537	0	\$ -	0	\$ -
11 R	1	\$ 6,143	0	\$ -	0	\$ -
12 J	159	\$ 8,095,276	0	\$ -	<b>1</b>	\$ 25,208
<b>13</b> V	3	\$ 45,109	0	\$ -	0	\$ -
<b>14</b> <sup>1</sup> R	7	\$ 3,318,217	0	\$ -	<b>1</b>	\$ 474,031
<b>15</b> V	12	\$ 1,455,760	0	\$ -	<b>1</b>	\$ 5,625
16 J	12	\$ 60,000	0	\$ -	0	\$ -
17 R	2	\$ 45,800	0	\$ -	0	\$ -
<b>Totals</b>	<b>1309</b>	<b>\$ 222,515,535</b>	<b>(29)</b>	<b>\$ (116,880)</b>	<b>70</b>	<b>\$ 4,187,477</b>

Contracting Entity: R-Regional Public Transportation Authority V-Valley Metro Rail J- Joint Contract  
Eight Federal contracts indicated with **bold, italic and green** reference number

<sup>1</sup> To capture final contract payments, expanded scope to 07/19/18 for contract #8 and to 08/30/18 for contract #14

Best practices require utilizing the correct distribution code for accurate reporting. Especially when utilizing Federal funds on eight of the 17 contracts reviewed.

The Finance Department did not establish all distribution codes with a contract number. The Project Manager and Contract Administrator did not ensure coding accuracy before authorizing the Pay Application. Finance did not accurately code all transactions. Additionally, there was no established process for periodic contract reconciliations or a process for on-going communication to notify the Contract Administrators of coding changes.

Failure to have an established process of on-going communication or to maintain an accurate record of payments may hinder Management's ability to make financial decisions. Additionally, if contract information is inaccurate or incomplete, the risk may increase that the department will not address closing contracts properly.

**Recommendations:** Management should establish all distribution codes to reference the contract number. Additionally, Management should establish an on-going communication process between Finance and the Contract Administrators for periodic contract reconciliations to verify the accuracy of transaction coding to facilitate better contract monitoring tools.

**Views of Responsible Officials:** The system of record for contract payments is currently the paper pay applications. The current financial system does not have a module for contract management and cannot track contract payments over multiple years. Payments made to vendors are appropriate and coded to the proper cost activities. The contract number within the coding system has no impact on operational and financial reporting and decision-making. Incorrect contract numbers used in the general ledger have no impact on grant reimbursements and would not result in any improper grant reimbursement requests.

Contract numbers used in the general ledger assist contract staff with monitoring and researching payments to vendors. Additional training will be provided to improve the accuracy of contract numbers in the general ledger.

**Responsible Party:** Chief Financial Officer

**Due Date:** To be fully implemented with a new Enterprise Resource Planning system

## Contract Payment Reconciliation and Follow-up Documentation - Not Maintained

To satisfy the Disadvantaged Business Enterprise (DBE) requirements, vendors were required to report total contract payments in the City of Phoenix's Certification and Compliance System, B2GNow (B2G). B2G payments did not match the Valley Metro contract payment records for two of five contracts, totaling a net \$94,776. Evidence of a reconciliation process or follow-up actions for the discrepancies did not exist.

Valley Metro used Federal funds for eight of the 17 contracts reviewed therefore, DBE requirements were applicable. The vendors were required to report contract payments in B2G to satisfy DBE requirements. However, the three contracts to Transit Vehicle Manufacturers (TVM) for rolling stock procurements did not require the vendors to report contract payments thereby reducing the testing population to five.

The table below is a summary of the reported contract payments in B2G and a comparison of those amounts to Valley Metro contract payment records for the five contracts.

**Contract Payments in B2G Comparison**

Number assigned to contract for reference	Vendor reported payments per B2G	Valley Metro recorded payments	Variance	Month/year variance reported in B2G
<b>1</b>	\$ 520,380	\$ 520,380	\$ -	N/A
<b>3</b>	\$ 99,197,928	\$ 99,198,116	\$ (188)	04/2017
<b>4</b>	\$ 65,259,800	\$ 65,164,836	\$ 94,964	01/2017
<b>13</b>	\$ 45,109	\$ 45,109	\$ -	N/A
<b>15</b>	\$ 1,461,385	\$ 1,461,385	\$ -	N/A
<b>Totals</b>	<b>\$ 166,484,602</b>	<b>\$ 166,389,826</b>	<b>\$ 94,776</b>	N/A

Federal contracts indicated with *bold, italic and green* reference number

N/A: Not applicable as Internal Audit noted no variances for this contract

*Federal Regulations (CFR) Title 49 Part 26 Subpart A- Section 26.11 required recipients to transmit the Uniform Report of DBE Awards or Commitments and Payments twice a year. Appendix B to Part 26 indicated, "Recipients are expected to keep accurate data."*

Valley Metro received funds as a sub-recipient from the City of Phoenix. City of Phoenix is responsible to comply with Federal regulations attached to funding. As a sub-recipient, Valley Metro should comply with all reporting requirements from the originating funding source. Periodic reconciliations throughout the life of a contract allow for timely remedies of discrepancies, rather than waiting until contract closeout.

Contracts and Procurement did not have a reconciliation process established for matching vendor reported contract payments in B2G to the Valley Metro payment records. Nor was a process established to document any follow-up actions taken.



Failure to have an established process to verify and document the accuracy of the payments reported in B2G may increase the risk that Valley Metro grant-funding reimbursements be non-compliant with DBE regulations.

**Recommendations:** Management should establish a reconciliation process for matching vendor reported contract payments to the Valley Metro payment records. Additionally, the process should include documentation of follow-up actions taken with the vendor and the City of Phoenix, as applicable.

**Views of Responsible Officials:** Valley Metro and its vendors report payments to the City of Phoenix as required by the Federal Transit Administration. Valley Metro's reporting is based on the actual payments made to vendors. While there have been no issues with any previous FTA Triennial Review related to reporting payments, we agree that regular verification and reconciliation of payments reported by vendors would help ensure that there are no findings in the future. The Chief Procurement Officer will develop a procedure for contract administrators to reconcile vendor payments reported to the City of Phoenix.

**Responsible Party:** Chief Financial Officer

**Due Date:** August 31, 2019

## Delegation not documented and Post-Award Sole Source verification

Contracts and Procurement did not maintain any Delegation of Authority documentation to authorize someone other than the Chief Executive Officer (CEO) to sign a \$137,400 software contract. Additionally, although the department obtained some Sole Source validations prior to contract execution, the department issued the *Public Notice* to verify the vendor's Sole Source status, 34 days *after* the signed contract went into effect. Below is a timeline of events:

- 08/17/17: The Joint Board of Directors provided authorization for the CEO to execute a three-year software contract (effective 09/01/17 thru 08/31/20), total value not to exceed \$137,400. Funding split: 85% Regional Public Transportation Authority (RPTA) and 15% Valley Metro Rail (VMR)
- 09/01/17: The Deputy Director of Capital and Services Development, the Contract and Procurement Manager, and the vendor's Co-founder/COO signed the conformed contract with an effective date of 09/01/17. Delegation of Authority documentation did not exist.
- 10/05/17: 34 days *after* the contract went into effect, the Contract and Procurement Manager authorized a solicitation: *Public Notice of Intent to Award a Sole Source Contract – Web-Based Transit Planning Software*, which ran from 10/05/17 thru 10/19/17. No additional vendors responded.

The *RPTA Procurement* policy (v. 06/16/11) Section II, C. Authority to Contract, sub-part (1) states:

“The authority to conduct procurements and sign contracts and amendments, including those that the Board has approved as described in Paragraph D of this Section, shall reside in the Executive Director or his/her designee.”

In addition, Section IV, G. Non-Competitive Procurement, (1) (a) Initiating Sole Source Purchase and (b) Verification of Sole Source states:

“...The Executive Director must first obtain Board of Directors approval to enter into a contract that was sole source procurement.”

“...The Procurement Department shall review the sole source request, and either reject the request or approve the request for award. No purchase, order shall be issued to the vendor until the Chief Procurement Officer has, concurred that the procurement qualifies as a sole source purchase.”

The *VMR Procurement Policy and Procedures Manual* (v. 04/24/11) Sections 3.2 (B) Chief Executive Officer's Authority and (C) Delegation of Authority states,

“The Chief Executive Officer is authorized to execute and sign contracts, agreements, and purchase orders approved by the Agency Board of Directors. He is authorized to execute and sign contracts, agreements and purchase orders up to \$150,000.00...”

“The Chief Executive Officer may delegate duties and responsibilities to immediate subordinates at his/her discretion, but only as necessary and within the limits of his authority. All delegations of authority **will be documented** and contained in Agency’s Authorized Approval List and the Delegation of Authority Matrix.”

The 2011 procurement policies (RPTA and VMR) reflected Delegations of Authority and Sole Source validation processes that were different between the entities and Valley Metro had not issued a policy to address joint entity contracts. The *Joint Internal Procurement Manual* (v. 06/25/18) provided clearer processes. However, enforcement of the Delegation of Authority and Sole Source validation processes within the 2011 policies were absent.

Failure to enforce clear processes and procedures may lead to inconsistent practices. Only authorized personnel should sign contracts to avoid an increased risk of the company being liable for goods/services that the CEO has not approved and maintain documentation supporting that authorization.

**Recommendations:** Management should establish and communicate clear processes and procedures, monitor for compliance with those procedures and maintain documentation of all Delegations of Authority.

**Views of Responsible Officials:** The Chief Procurement Officer will provide training to Contract Administrators to ensure that proper procedures are followed for Sole Source awards and that appropriate documentation is maintained for Delegations of Authority. If assigned Delegation of Authority is not presented, a Director or other member of management will not be allowed to sign official contract documents.

**Responsible Party:** Chief Financial Officer

**Due Date:** August 31, 2019

## Accurate Listing of Current Contracts - Not Maintained

Contracts and Procurement did not maintain an accurate listing of current contracts. The *Weekly Procurement Report* provided to Executive Leadership was a means to track the status of procurement activities and provide Leadership with current contract details. The *Weekly Procurement Report* (v. 07/05/18) provided to Internal Audit listed 158 current contracts, of which 37 contracts were either missing data or listed inaccurate data.

- 35 contracts had no information recorded for various key attributes, of which:
  - Two contracts lacked all of the following five key attributes:
    - company, start date, end date, contract original and current values
  - 11 contracts lacked the current contract values
  - 16 contracts lacked the assigned Contract Administrator
  - Six contracts lacked the contract end date
- Two contracts had the current contract values listed inaccurately, of which:
  - One contract still listed the pre-construction value, when multiple change orders had extended the value
  - One contract only listed the first-year contract value, when Valley Metro had executed two one-year extension options

To support operational and financial decision-making, Executive Leadership needed a mechanism to track the status of procurement activities and obtain current contract details.

Contracts and Procurement was not accurately providing current contract details to Executive Leadership on a consistent basis, which may negatively influence operational and financial decisions.

**Recommendations:** Management should ensure the completeness and accuracy of the *Weekly Procurement Report* submitted to Executive Leadership. Possibly, by assigning an individual who is not involved in the preparation of the report the task of reviewing, validating and reconciling the report for accurate information prior to the Executive Leadership submission.

**Views of Responsible Officials:** The weekly procurement report is an internal document used to provide general status updates to the General Counsel and CFO. No operational or financial decisions are made based upon this report. We recognize that it is labor intensive to ensure that all data are up-to-date as the system of record is paper based. Any questions about specific contracts are directed to the Contract Administrator or Project Manager.

**Responsible Party:** Chief Financial Officer

**Due Date:** To be fully implemented with a new Enterprise Resource Planning system

## Contract File Documentation - Not Centralized

Contracts and Procurement did not retain consolidated records in a contract file or a centralized location (such as SharePoint or the Contract Binder) to support the contract lifecycle. Paper or electronic documentation forming a complete contract file resided in up to nine various storage mediums: five utilized by Contracts and Procurement, three agency wide and one managed by the City of Phoenix. Internal Audit reviewed 17 contracts administered by five Contract Administrators. Contracts and Procurement did not consistently maintain the following five contract file components in a location readily accessible to all Contracts and Procurement staff, such as SharePoint or the Contract Binder:

- Buy America pre-award and post-delivery audit requirements were applicable for three contracts. Although all Buy America documents were located, the documents for one pre-award audit and two post-delivery audits were not readily available. After Internal Audit requested them, documents were located in the following storage mediums:
  - Contract Administrator's Valley Metro email folder
  - Contract Administrator's local drive
  - Project Manager's files
- Disadvantaged Business Enterprise (DBE) requirements were applicable for eight contracts. DBE kick-off meeting acknowledgements were required for five contracts and notifications to the City of Phoenix for Transit Vehicle Manufacturer (TVM) procurements were applicable for three contracts. Although all DBE meeting and TVM notification documents were located, the documents for two DBE meetings and three TVM notifications were not readily available. After Internal Audit requested them, documents were located in the following storage mediums:
  - DBE kick-off meeting documents were in the City of Phoenix's Certification and Compliance System, B2GNow
  - TVM notifications were in the Administrative Assistant's Valley Metro email folder
- On-going vendor insurance coverage requirements were applicable for 14 contracts. Although all insurance documents were located, three vendor insurance records were not readily available. After Internal Audit requested them, the documents were located in the following storage mediums:
  - Contract Administrator's Valley Metro email folder
  - Contract Administrator's local drive
  - Administrative Assistant's files
- Board of Directors' authorizations and approvals to execute contracts as evidenced by meeting minutes were required for 15 contracts. Although all Board meeting minutes were located, Board meeting minutes for 13 contracts were not readily available. Internal Audit located the meeting minutes in Valley Metro's network drive for Board and Committee documents.

- There were 168 Contract Pay Applications (Pay Apps) associated with the 17 contracts reviewed that required the Contract Administrators' approving signatures. Although all Pay Apps were located, 53 Pay Apps associated with 10 contracts were not readily available. After Internal Audit requested them, the documents were located in the following storage mediums:
  - Contract Administrator's local drive
  - Finance's accounts payable files

*Federal Regulations (CFR) Title 49 Part 663, Subpart B—Pre-Award Audits, Section 663.23-Description of pre-award audit states:*

A pre-award audit under this part includes—

(a) A Buy America certification as described in §663.25 of this part (663.25 states: For purposes of this part, a pre-award Buy America certification is a certification ***that the recipient keeps on file***)

(b) A purchaser's requirements certification as described in §663.27 of this part (663.27 states: For purposes of this part, a pre-award purchaser's requirements certification is a certification ***a recipient keeps on file***)

*Subpart C—Post-Delivery Audits, Section 663.33-Description of post-delivery audit states:*

A post-delivery audit under this part includes—

(a) A post-delivery Buy America certification as described in §663.35 of this part (663.35 states: For purposes of this part, a post-delivery Buy America certification is a certification ***that the recipient keeps on file***)

(b) A post-delivery purchaser's requirements certification as described in §663.37 of this part (663.37 states: For purposes of this part, a post-delivery purchaser's requirements certification is a certification that ***the recipient keeps on file***)

In addition, *CFR Title 49 Part 26, Subpart A - General, Section 26.11 (d)* states:

“You must maintain records documenting a firm's compliance with the requirements of this part. At a minimum, you must keep a complete application package for each certified firm and all affidavits of no-change, change notices, and on-site reviews. These records must be retained in accordance with applicable record retention requirements for the recipient's financial assistance agreement. ***Other certification or compliance related records must be retained for a minimum of three (3) years*** unless otherwise provided by applicable record retention requirements for the recipient's financial assistance agreement, whichever is longer.”

The *Regional Public Transportation Authority Procurement* policy (v. 06/16/11) Section V, B. Contract Administration, (3) Maintenance of Procurement Records states:

“The Procurement Department shall maintain a procurement/contract file for each RPTA contract. The contract file shall contain all records sufficient to document the significant history of the contract, including all formal and informal communication between RPTA and the vendor, supplier, or contractor.”

Additionally, the *Valley Metro Rail, Inc. Procurement Policy and Procedures Manual* (v. 04/24/11) Section 11.3 (A) Contract Files states:

“The Contract Administrator is responsible and shall ensure that documentation in each contract or purchase order file is sufficient to constitute a complete history of the transaction.”

The 2011 procurement policies (RPTA and VMR) did not address retention requirements. Although the *Joint Internal Procurement Manual* (v. 06/25/18) addressed retention requirement, Contracts and Procurement had not established a process to monitor contract files to ensure complete and readily accessible records.

Failure to communicate and enforce applicable Federal regulations and department standards for contract records may lead inadequate documentation to facilitate grant-funding reimbursements or to evidence Federal compliance, which could lead to Federal actions of:

Per *CFR 49 Part 663.15* (Buy America): “A recipient determined not to be in compliance with this part will be subject to the immediate suspension, withholding, or repayment of Federal financial assistance from FTA or other appropriate actions unless and until it comes into compliance with this part.”

Per *CFR 49 Part 26.101(a)*(DBE): “If you fail to comply with any requirement of this part, you may be subject to formal enforcement action under §26.103 or §26.105 or appropriate program sanctions by the concerned operating administration, such as the suspension or termination of Federal funds, or refusal to approve projects, grants or contracts until deficiencies are remedied.”

**Recommendations:** Management should communicate and enforce the retention standards and the Federal requirements for contract supporting documentation. Additionally, management should develop a monitoring process and periodically assess compliance, to ensure adherence to the requirements.

**Views of Responsible Officials:** Contract administrators are trained and understand the requirements for keeping proper documentation. As noted in the audit, all required documentation was located and provided to internal audit staff. The Chief Procurement Officer has been working to identify a centralized location for document storage, but the current state of our technology systems makes that a challenge. Contract administrators are trained to follow Valley Metro’s records retention policy and follow FTA’s records retention requirements.

**Responsible Party:** Chief Financial Officer

**Due Date:** To be fully implemented with a new Enterprise Resource Planning system